

EXHIBIT 2
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HB 40

January 19, 2007

RE: HB 40

Testimony from Betsy Baumgart, Administrator Montana Promotion Division

HB 40 is a bill that amends the "Big Sky on the Big Screen Act" which was enacted during the last legislative session.

- The intent of this bill is to enhance the incentive package so that Montana can better compete for film production in the state.
- This bill will increase the percentages of the allowable tax credits.
Increasing the 8% credit for qualified expenditures to 10%
Changing the 12% credit on wages paid to Montana crew members to 15%.
- HB 40 also eliminates a \$1 million spending cap, allowing Montana the ability to compete for not only smaller budget films but large budget films as well.
- And simplifies the application fee to a flat fee of \$500.
- Not a dime of tax credit is issued until new money is spent on Montana labor, goods, and services. Not a penny is given out until the production company has filed their Montana corporate income tax.
- Since the passage of this Act 1½ yrs ago; the Montana Film Office has certified 23 productions.
 - The very first production to get certified was a British Docu-Drama about the first T-rex found in Montana. This production company was in the state for 11 days and shot in several locations: Malta, Glasgow, Glendive, Jordan, Great Falls, and Virginia City. It wasn't a large budget project, but they still dropped \$72,051.19 in these 6 Montana communities.

Direct spending by production companies last year is estimated at \$7 million. This was a 25% increase over the previous year. When we reviewed all of the productions that came last year, a conservative estimate would show that the entire 25% growth was a direct result of the new film incentive. So without the incentive we might have not only kept up with previous year, but we may have seen a decrease in production.

We know that the current film incentives directly influenced two feature films and at least two commercials. In other words, these productions would not have shot in Montana had we not had the film incentives.

- The most notable feature film was "A Plumm Summer". This production shot for 4 ½ weeks in Livingston and Bozeman areas last summer. During this time they employed 95 Montana residents with a payroll of almost a half a million dollars. (\$465,987). In addition to their payroll expense, they spent an additional \$1 million on expenditure in these local economies. This does not include any of the additional spending of personal money by actors and crew or the donations of goods by the production company for the victims of the Derby Wildfire. The production company spent \$1.5 million in Montana and earned a tax credit of \$138,256.
- The second feature was a comedy titled "Pretty Ugly People". This production was filmed in Missoula, East Glacier and the Seeley-Swan Valley. We do not have their production cost breakdown as of yet, however we estimate the impact at about \$250,000.
- A commercial production company, Ranch Exit Films, shot several national television commercials in Montana prior years, but left the state in 2004 to shoot elsewhere due to more attractive incentives. Last year, they returned to Montana to take advantage of the Big Sky on the Big Screen Act. They filmed 2 national commercials for Lincoln Mercury and Toyota in 2006. Their final numbers are not in yet, but it is estimated that there was over \$200,000 in direct Montana spending.

The jobs in this industry are not low paying jobs. Skilled workers in the film industry typically make between \$18 and \$22 dollars an hour, and it can even be higher for union jobs. The average wage in Montana, according to Dept of Labor is \$14.02 per hour. Film industry jobs rate about 42 % higher than the average wage.

In addition to the direct benefit of creating new jobs and millions of new dollars spent in Montana, there is also the indirect benefit of having Montana on the big and small screen. Films such as The Horse Whisperer, influence both national and international tourist to come and explore Montana, and spend even more money in our economy.

As you can see, this incentive has had limited success, however since the passage of the Big Sky on the Big Screen Act 12 states have passed new incentive packages and another 7 states with incentives have strengthened the ones they had. And of these state, 15 have now leapfrogged Montana.

Montana needs this amendment in order to stay competitive.

As you can see from the map; there are 10 states that have no incentives, another 17 states with incentives that are less than Montana's and 22 with stronger incentives.

More importantly, I'd like you to look at the regional picture.

- Currently, with the Big Sky on the Big Screen Act – Montana about in the middle of the pack.
- If you look at the map showing where Montana would be with HB 40. You can see that Montana begins to look a lot more competitive.

Montana is often competing with the states of Oregon and Utah. We recently lost films like the Ring 2 to Oregon and multiple TV commercials to Utah. House Bill 40 will make us more competitive and give Montana an advantage when vying for film projects with our neighboring states.

An example of the best incentive package regionally, is New Mexico. New Mexico is the “top dog” in the film incentive world, have large incentive packages, and now bring in over \$100 million dollars worth of direct production spending per year. New Mexico's direct production expenditures in 2002 prior to the incentives being enacted by the legislature were \$3 million. That is significant growth.

Also, it's good to note that as we sit hear today, the Wyoming Legislature is currently considering a bill to implement an even more aggressive filming incentive than HB 40 asks for. It will allow for up to a 15% incentive on both labor spending, and goods and service spending.

The Big Sky on the Big Screen Act has been criticized as being a Hollywood subsidy... but it is not. HB 40 will allow Montana to be a player in this very competitive arena for on location film making. This business is good for Montana in that it creates good paying jobs and brings new dollars into our small and large communities throughout the state.

I urge a do pass on HB 40.